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The 25th Anniversary of the Staggers Rail Act of 1980: A Review and Look  
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I am pleased to participate in this hearing on the 25<sup>th</sup> anniversary of the Staggers Act. Of course, the Staggers Act is a component of a significant trend towards microeconomic reform worldwide, manifested largely as deregulation in the United States. Traditional regulation in the public utility framework has given way to greater reliance on markets and competition across a number of industries

Somewhat unique amongst U.S. industries experiencing deregulation, railroads themselves were the primary proponents of deregulation because of their poor performance under regulation. Rail's ton-mile share of the U.S. intercity surface freight market declined from 65 percent to 35 percent with returns on investment consistently in the 2-4% range in the post-WWII decades. Following a spate of railroad bankruptcies in the early to mid 1970s, including the Penn Central, initial regulatory reform began with the Railroad Revitalization and Regulatory Reform (4R) Act of 1976. The 1980 Staggers Act further deregulated the industry (Keeler, 1983).

U.S. rail deregulation provided a greater reliance on free markets to promote railroad profitability and public benefits. By increasing operating freedom and stimulating competition, deregulation spurred the railroad industry to shrink its physical plant and work force to better match available traffic (Grimm and Windle, 1999). As discussed by Grimm and Winston (2000): "The industry abandoned roughly one-third of its track and reduced crew sizes; used contracts to align cars and equipment with shippers' demand and to reduce its vulnerability to problems caused by overcapacity; and expanded the use of intermodal operations, double stack rail cars, and computer systems to provide faster, more reliable service. Real operating costs per ton-mile have fallen steadily, and, as of 1998, were 60 percent lower than when deregulation began. Some of

the cost decline can be attributed to the long-run trend in rail's traffic mix to include a greater proportion of low-cost bulk traffic, but deregulation's contribution is substantial. Cost reductions and productivity improvements stemmed the long-run erosion in market share. And rail traffic grew. After reaching a post-war low in the mid-1980s, originating rail carloads have grown from 19.5 million in 1985 to 25.7 million in 1998.

All of these factors have boosted profitability. During 1971-80, the industry's return on equity was less than 3 percent; during the 1990s the industry's return on equity averaged 10.7 percent (United States General Accounting Office, 1999).” A Brookings Institution study in which I participated (Winston, Corsi, Grimm and Evans, 1990) evaluated the economic effects of surface freight deregulation, thus encompassing the effects of both Staggers and the Motor Carrier Act of 1980. This study found that in aggregate shippers have benefited as well from surface freight deregulation. Based on \$1977 dollars, shippers reaped \$11 billion in annual benefits; using a GDP deflator to adjust to the present, the annual benefits are in excess of \$27 billion.

Rail deregulation has clearly been a successful policy. Looking back, the key point is that the infusion of competition into freight transportation markets has been the driver of economic benefits, as has been true throughout the U.S. and global economy. Going forward, policy makers should preserve and enhance rail competition to continue and extend the benefits of Staggers.

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